RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**
P.O. Box 1759, La Jolla, California 92038
36 Letters per year — $150 Annually
Registered with the Securities and Exchange Commission

October 28, 1977 **LETTER 712**

Oct. 14, DJIA 821.69; PTI 796; A-D Ratio –21.30
Oct. 21, DJIA 808.30; PTI 778; A-D Ratio –21.85

THE MARKET: When a man is forced to go into dangerous territory, he doesn't take his wife, his kids, his cash and his treasures with him. He arranges his affairs as safely as he can, tucks his rifle under his arm, and moves out–hoping for the best and being prepared for the worst.

That's about the way I felt last March and April when I told my subscribers, "Get out of common stocks." At that time, I had enough evidence to make me think that there were rough waters ahead. How rough I didn't know. And to tell the truth, I still don't know. But like the guy above who is entering dangerous territory, I didn't want my readers going into the jungle with all their assets on their backs. So we went exploring–but with our money in the bank, or in T-bills–or in bonds or some other form of liquid assets (including 5 to 10% of our assets in Krugerrands).

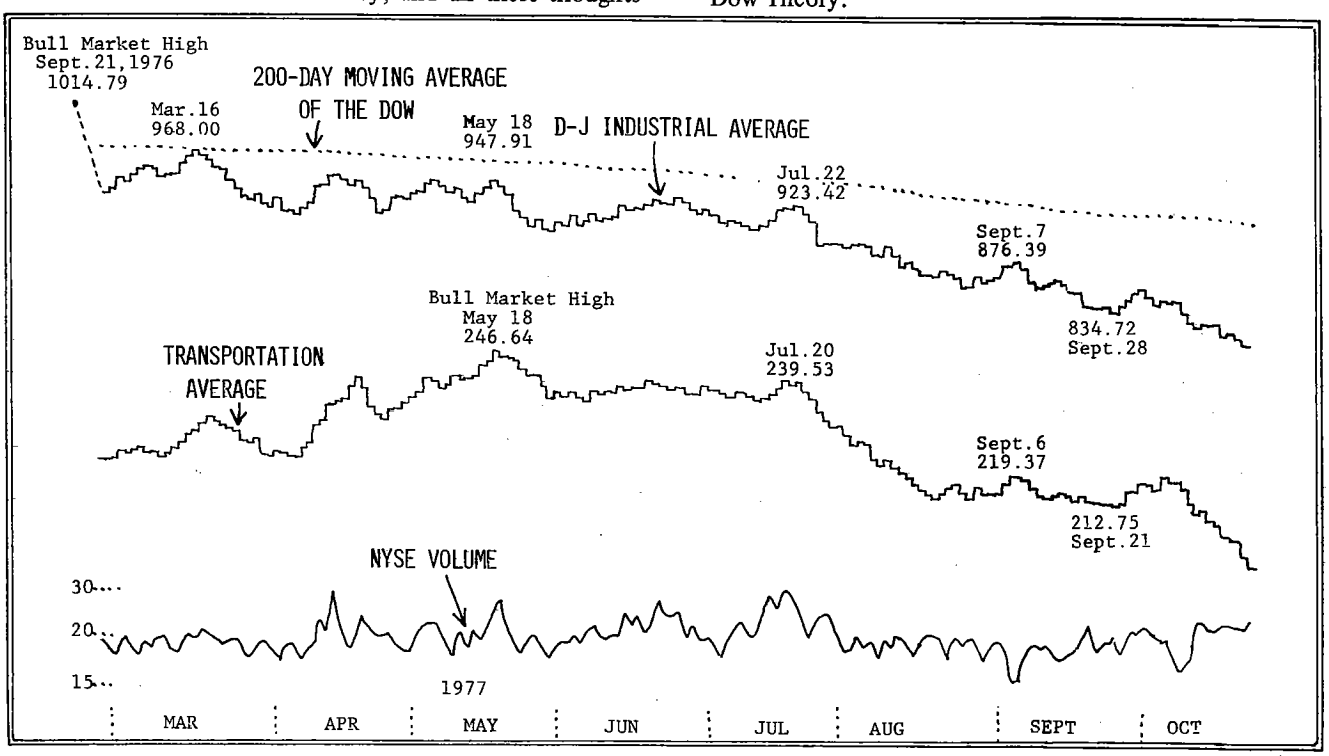
If you remember, the market started down, and as it went down it looked like a million bucks. Business was good, auto sales were zooming, President Carter looked like a winner, and analysts were competing with each other in saying that "Everything is all right," and "It's beautiful, sit tight."

Despite the rosy predictions and the overwhelming complacency, the Dow continued on its seemingly endless path down. And that was the fooler, the phenomenon that caught everyone off guard. For in totally unorthodox fashion, the Dow had topped out first–when any analyst worth his salt knows that all major declines start with the A-D ratio topping first, or the Utilities or the bonds. But the market doesn't listen to rules and it doesn't have to go by the book. Wall Street does what it has to–to part investors from their hard-earned money, and all these thoughts were on my mind last March and April and they have been ever since.

My position during most of 1977 was that we were seeing the end of the second phase of the bull market. I didn't think we had seen active public participation in the market during 1974-76, and I am still of that opinion. Neither did I think we had seen enough froth and frenzy to have terminated the bull market. With last week's action I've decided for the bear. But there's one thing I'm positive about, brother, and it's that there's a big difference between an academic argument with your assets safely in cash and an argument with your assets in stocks that are withering away.

I drew attention many months ago to the secondary lows in the Averages. Following the 1976 highs, the Transports recorded a secondary low of 203.85 (October 12, 1976), and the Industrials recorded a secondary low of 924.04 (November 10). We had some year-end 1976 fireworks and then the Averages turned down. The 924.04 Industrial low was shattered on March 30, 1977, and that put the spotlight on the 203.85 Transport level. On a mechanical reading, if 203.85 is broken it's a primary bear market.

I've been talking about the 203.85 Transport level for many months. That was the secondary low recorded on October 12, 1976 (following the *last joint highs* recorded by the two Averages in July, 1976). There have been some arguments about the significance of 203.85 on the part of amateur Dow Theorists, but take it from me, 203.85 represents the critical low for Transports. That low has outstanding significance under Dow Theory.



There are only two arguments against 203.85 that are worth anything. (1) Under Dow Theory, the **longer the time elapsed** after a point is established, the less the significance of that point. The 381.21 high of September, 1929, for instance, has little or no significance today. It's been 12 months since the October, 1976 low in the Transports, and for that reason one could at least question its importance. (2) An awful lot of people have been watching the 203.85 level, and what everyone watches is often not the thing to watch. I've thought in my own mind that perhaps a violation of 203.85 could be a "fooler," and that a breaking of that point could take the market directly down to an over-sold bottom. But in my gut, I believe 203.85 is important; I believe a violation of 203.85 should be taken most seriously; I feel that a breaking of 203.85 leaves the bullish camp with only one final "straw."

My subscribers and I are out of the market so I don't believe that I have any axe to grind. But I still consider it correct procedure to give the last confirmed primary direction every benefit of the doubt. For that reason, I introduced the 50% Principle in the last report. I would say now that with the current still-poor technical situation in the market, if 203.85 is broken and Industrials then drop below 796.19 (the halfway level of the 1974-76 primary advance), we should consider the primary trend as having turned down. In that event we will have witnessed an abbreviated bull market which started in October, 1974 and lasted to July, 1976, a span of 22 months.

The perpetual bull might then continue to argue that all we have seen since the highs in this bull market is an extended, tortuous, deceptive secondary reaction. Perhaps, but I feel that he would be very much like the guy who is standing in the middle of the railroad track trying to decide whether the train bearing down on him is the Central Flyer or the good old 8:15. It doesn't much matter–what matters is whether he gets off the tracks or not.

A BEAR MARKET SCENARIO: All right, let's just **assume** that all the technical supports are knocked out. Let's say that the Transports' 203.85 level is cracked along with the 796.19 50% level of the entire 1974-76 Industrial advance. Then there would be no further downside points worth looking at (except, I guess, for the 784.16 reaction low of October 1, 1975–and the extreme bear market lows of 1974). With that *advance assumption*, let's see what we've got.

The fact is, as I explained in the last Letter, that when a decline succeeds in decisively violating the halfway level of the preceding major extended advance, it is reasonable to conclude (or certainly to question) the continuance of the primary bull trend. Look at it this way, the D-J Industrial Average has been sliding for 13 months. Certainly a "normal" correction could have discounted the worst and still retained half of the gains of the preceding bull market (in this case, the bull market of 1974-76). Why couldn't Industrials hold half of their total gains since December, 1974? The obvious answer seems to be that the situation is much worse than anyone suspects. The market has "seen" the picture and correctly discounted it by smashing all vital technical supports.

Next, let's just assume that it's a bear market. Even so, Industrials have been sliding off (without so much as a 5% rally) ever since September 21, 1976. I don't care if Industrials go another 50 or 250 points on the downside, eventually this market (like all others before it) is going to "over-do it" on the downside. It's going to be drastically over-sold. That is going to pave the way for an advance, and probably a big one. At any rate, I believe we're going to have an advance worth buying.

But the **quality** of the next major advance is going to be absolutely **critical.** If the quality is poor, then we're going to have to abandon it fairly soon. Worse than that, if the quality of the advance is poor, we're going to have to protect ourselves against what will probably be major, and I'm saying MAJOR, trouble in the economy and across the board in the investment world. If the quality of the next major advance is sub-standard, then I'm going to recommend moving ALL of our assets into US Treasury bills (91-day bills) and gold. At present, I assume that subscribers hold the recommended 5 to 10% in gold coins. If the coming rally doesn't look "right," I'll probably recommend 15% or even more in gold assets and the rest in Treasury bills.

Now there's another thing to remember when the market, following a long decline (such as the one we're witnessing) goes over-sold and turns up, and it is that there is no man alive who knows how far the ensuing advance is going to go. Most of the major, drastic declines in history have been followed by major rises. A few, such as the 1930 advance, were seen in retrospect, to be huge bear market rallies. Others, such as the advances of 1954-56 and 1963-66, proved to be resumptions of the primary bull trend.

Question: What should be our investment stance now?

Answer: We should be sitting in money instruments along with the 5% to 10% in gold. In the last Letters I recommended hedging some part (and I can't tell you how much) of your bond portfolio by moving into short-term Treasury bills or a "liquid assets" fund. As a sheer guess, I would say that at least one-third of your money instruments should now be "short term." If you want to be more conservative, switch to 50%. Yes, I know you pay Federal taxes on T-bills whereas you don't on Municipal bonds, but I still insist that you should be one-third to even 50% in short-term assets.

Question: Are you also talking about closed-end bond funds too when you say "switch into short-term?"

Answer: Yes, obviously, I am. Most closed-end funds have the major part of their investments in long-term bonds. So I would cut down here too–so that total assets are one-third to one-half short-term instruments.

Question: How can this be a serious market decline when the advance-decline ratio has held so well?

Answer: I've re-written this Letter over about five times in the last few days. That's how tough this market is–at least at this juncture. At this writing, the A-D ratio has lost less than 5 points, while the decline of July to October, 1975, wiped 6.37 points off the A-D ratio. Nothing about this decline has been orthodox so far, and my fear is that if 796.19 is smashed, the A-D ratio (or most of the NYSE issues) will make up for lost time–on the downside.

Question: What about the Utilities? They have held up so well in this market.

Answer: True, they have so far. The August 26 low for Utilities was 109.95. If that low is violated, I would say that the Utilities have turned bearish. The next important low would then be the February 25, 1977 low of 104.97. Utility stocks have a "funny" way of keeping up (percentage-wise) with the other Averages

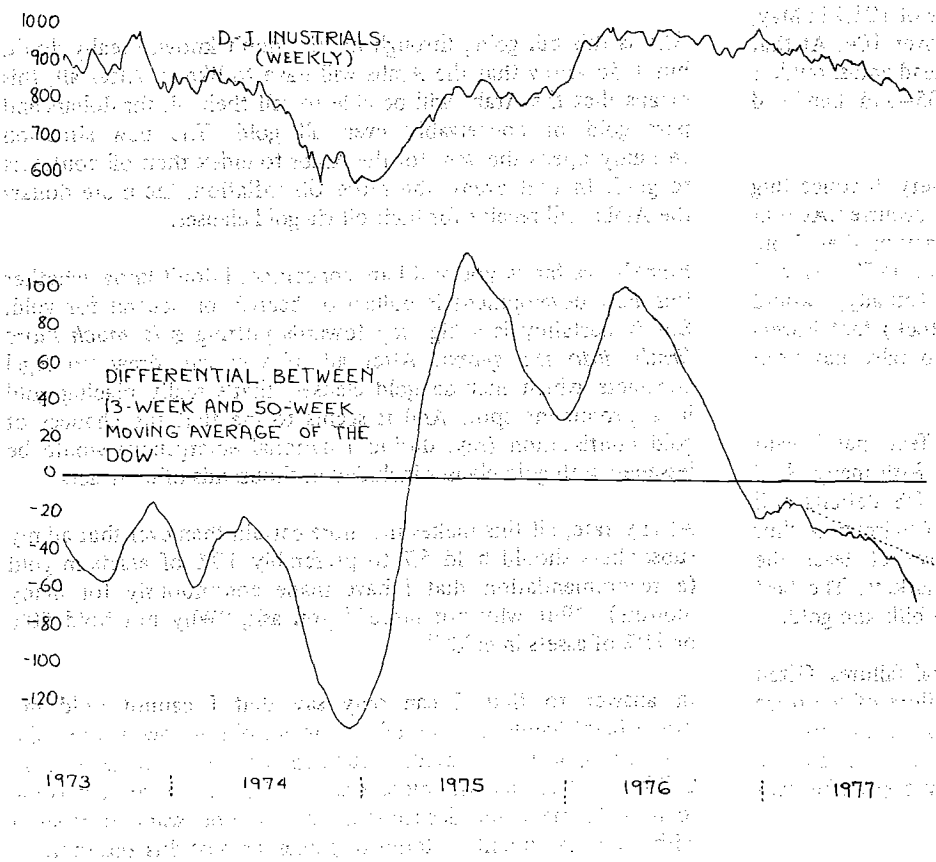
during major moves. For this reason, I would not stay stubbornly bullish on the Utilities if the rest of the market goes.

Question: Russell, what about the month of **October**. You pointed to October as a month which was very significant in your Fibonacci series studies. You said October could be "the bottom" for the market under Fibonacci. What do you think now?

Answer: You mean, what do I hope now? I hope that October will see the bottom, but I must admit that my technical data at this time hardly suggests an October bottom. The odd-lot indices (purchases to sales) have been moving steadily to *less* selling, meaning that the public thinks lower prices are bargains. My market trend index is still well above minus 1400 (see chart in last Letter). My most-actives index is not in over-sold territory, due to the new passion for chasing "take -over candidates." In other words, instead of running out of the market, the most-active stocks on the NYSE suggest that "the boys" are still in a speculative move, frantically searching for the next piece of "action."

Ah yes, one more thought. I hope that October is not going to be the month that sees the Dow smash its 50% level of 796.19. Could that be the significance of October? As I've said so many times before, I don't make the market, I just try to read it (and sometimes it doesn't read the way I'd like it to).

DOW MOVING AVERAGES: Sometimes the simplest things work best. Dostoievsky, the great Russian novelist, probably said it best when he wrote, "Be simple and rediscover the world." At any rate, one of the oldest, simplest and easiest to understand studies is that of the moving averages of the D-J Industrial Average.



A question I often receive is, "What about the trendline–as compared with the moving average?" The answer is that the trendline has many advantages, particularly when plotted on semi-logarithmic scale. When plotted on semi-log, the trendline will show the rate of advance or decline of the price. And when the price movement breaks above or below such a trendline we know that the *rate* of ascent or descent has been reversed.

But the moving average has the advantage of "bending" with the price movement. In bending or following the price movement, signals often come **sooner** than with trendlines. All my subscribers must be familiar by now with my studies of the three moving averages (MA's) of the Dow. I use a 4-week or short-term MA, a 13-week or intermediate-term MA, and a 50-week or long-term MA.

The important or **major** buy and sell signals come when the 13-week MA crosses above (buy) or below (sell) the 50-week MA. The last major signal appeared in November, 1976, at which time the 13-week MA dropped below the 50-week MA, thereby rendering a sell signal. Since November the two MA's, the 13 and and 50-week, have stubbornly maintained their negative position. And about every few months I include a chart which up-dates these MA's of the Dow.

Occasionally I also include a chart which tracks the differential in Dow points between the 13-week and 50-week MA. This differential indicator (DI) is positioned above zero when the 13-week MA is bullishly above the 50-week MA. When the 13-week MA drops bearishly below the 50-week MA, then the DI shows this situation by sinking below zero (as you can see on the chart). In other words, the DI reduces the relationship between the 13 and the 50-week MA to a **single line.**

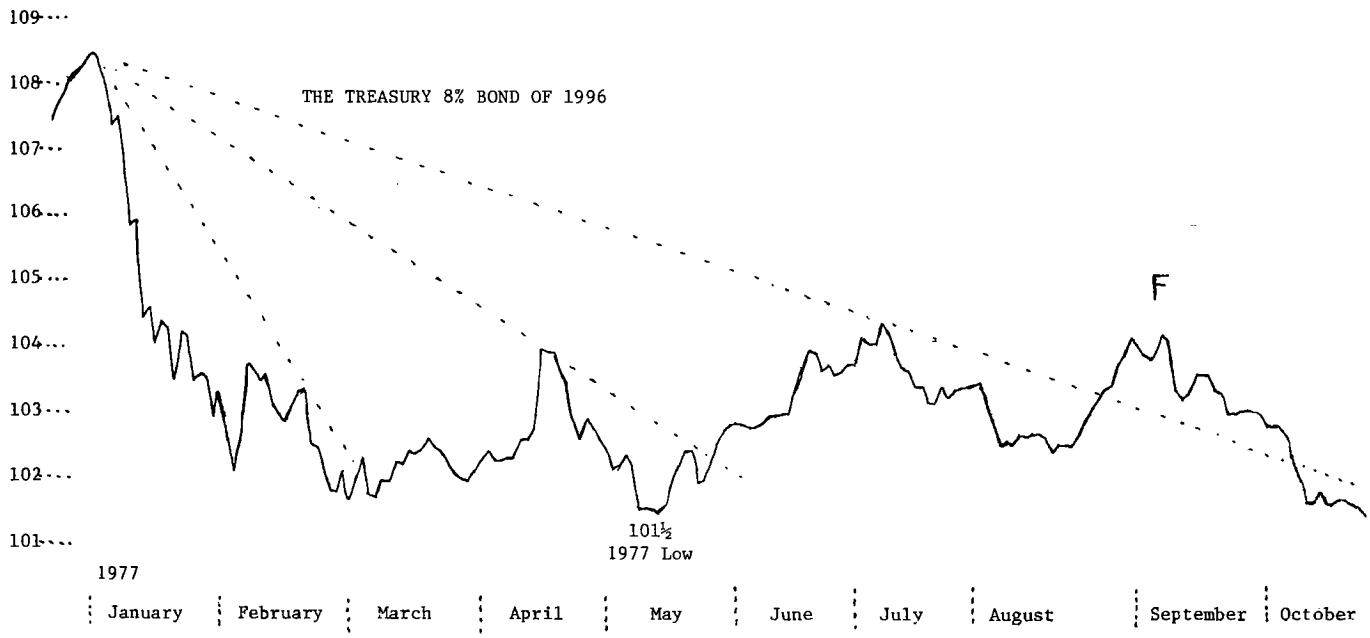
But the single line DI can also show us a profile that is not evident on the chart of the three MA's. What we can discern on the accompanying chart is the *trend of the spread* between the 13 and 50-week MA's. Why is this important? Because as long as the trend of the DI is down (as it now is), we know that the situation **continues bearish**–in that the 13-week and 50-week MA's are spreading further apart.

But sooner or later the two MA's will reach a maximum negative or bearish spread. At some point the declining trend in the DI will be reversed to the upside. This reversal will represent a very important change. It will arrive long **before a major bull signal** (a bull signal being a crossing of the 13-week MA above the 50-week MA).

A reversal of the declining trendline on the DI (the trendline is shown by the declining dotted lines during 1977) will represent a very important *early* hint that the Dow is about to head up. We will probably want to do some buying when the DI (which is now minus 64), pushes above the declining dotted trendline (which now stands at minus 40). In other words, buying on a bettering of the trendline would, of course, get us into the market a lot earlier than waiting for the 13-week MA to cross above the 50-week MA.

Note that the DI has been sliding lower ever since the second quarter of 1976. But the thing

that bothered me is that there has been **almost no sign of an upward correction**. This implies insistent, steady, relentless selling pressure in the Dow stocks. I am reasonably convinced that a good part of this amazing downside pressure has come from foreign selling. But that selling is spreading, and ultimately it will end the famous "two-tiered market" (actually, the two-tiered market is fast becoming a **single** market–on the downside).



BONDS: I have included my chart of a very representative long-term Treasury bond, the 8% of 1996. This bond came down from a peak of 108½ in January, 1977, touched a low of 101½ in May, then moved up to a September peak of just over 104. At that point it seemed that the bond had formed a "head-and-shoulders bottom" and was poised to break out above 105–and then head higher.

But in early September (F on chart) we had a very disconcerting "failure," in that the hoped-for breakout never occurred. At that point, I started revising my stance on the money market. Note that the bond has now retreated to just above its 1977 low, and there it has been sitting for almost two weeks. Actually, I would ordinarily expect a rally from a bond (or a stock) that hovers just above an important previous low. But no rally has been forthcoming, and this too bothers me.

I therefore am warning readers again to the effect that I want them basically in the most liquid instruments. With many NYC banks dotting the daily new lows list, with US deficits still climbing, with great doubts about whether Fed Chairman Arthur Burns will be around much longer, we have at least the ingredients for major trouble in the money markets. The best way to avoid trouble is to move toward Treasury bills and gold.

I also want to write a few words about technical failures. Often we can learn as much from a failure, say the failure of the price movement to break out when it "should," as we can from a success. I have learned to respect important technical failures, and I thought the action of the bonds in early September was very significant.

GOLD: Two weeks ago a little-noticed bill passed the US Senate. A week later it passed the House. It is now on the President's desk. If he signs it, it will be law. This new bill voids all restrictions on the use of US gold, either domestically or internationally. The bill jettisons the so-called "Gold Prohibition Clause," a clause that should have been eliminated in 1974 (when gold was made legal for US citizens to own). If the bill goes through, it will be legal for Americans to make deals with other Americans or with foreigners, deals that will specify that payment can be made in either gold or dollars. Thus, gold can literally be indexed to the dollar.

Why is this bill going through now? I don't know, I really don't, but I do know that the Arabs will have to like it. After all, this means that the Arabs will be able to sell their oil for dollars and part gold–or conceivably even all gold. The new situation certainly opens the way for the Arabs to index their oil contracts to gold. In that event, the more US inflation, the more dollars the Arabs will receive for their oil via gold clauses.

Frankly, as far as you and I are concerned, I don't know whether this new development is bullish or bearish or neutral for gold. But it certainly is a big step towards putting *gold much more firmly into the sytem*. After all, if you can draw up legal contracts which include gold clauses, that's really placing gold in a prominent spot. And it seems to me that the chances of gold confiscation (say, during a national emergency) would be lessened with gold clauses included in thousands of contracts.

At any rate, all this makes me more certain than ever that all my subscribers should hold 5% to preferably 10% of assets in gold (a recommendation that I have made continuously for many months). "But why not more?" you ask, "Why not hold 50% or 75% of assets in gold?"

In answer to that, I can only say that I cannot hold my subscribers' hands. I can't tell a 60-year old widow in Iowa the same thing as I tell a pension fund in NYC or a businessman in California. I present the picture as best I can, but you are going to have to make the decisions as to how you want to proceed with your investments in terms of percentages of this and that.

There are a few things to remember about gold: (1) It pays no interest, no dividends. Gold is strictly a store of real value, and it must be viewed as a hard-core hedge against rampant inflation or a monetary collapse. (2) As this stock market moves towards its final bottom, it will also be moving towards the area where (a) it will be discounting the worst that lies ahead, and (b) it will be nearing the next advancing phase. My feeling is that when the market starts advancing steadily, the whole situation, and certainly investment sentiment, is going to "look better" and "feel better." This could correspond to a correction in gold. Remember, gold rises on worry and hand-wringing, and gold declines on returning confidence.

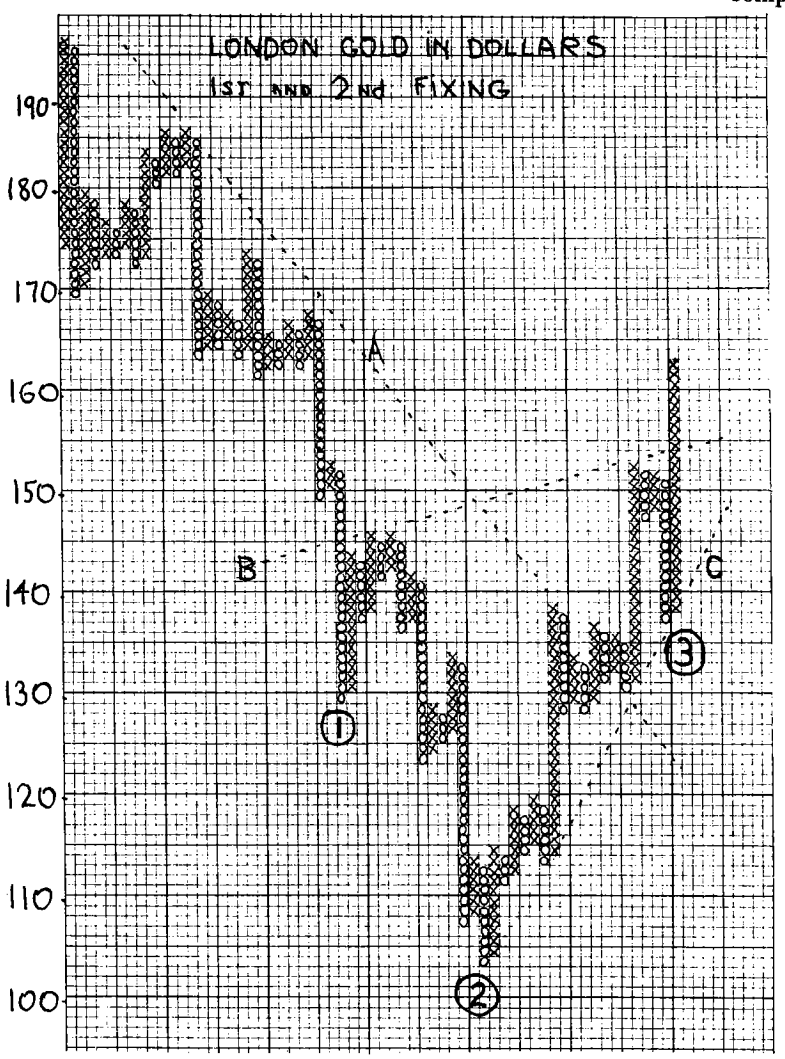
However, and prepare yourself for this–I may well suggest to my subscribers that they increase their gold positions during the next gold correction. I just want you to be prepared for that (and it will probably come at a time when gold looks as though it has "had it").

Now, a word about the actual gold mines. I still want my subscribers to stay with the gold coins–rather than the stocks. One reason for this is now rather evident. The South African situation has taken a turn for the worse, in my opinion. The new clamp-down on black leaders and black organizations by S.Africa is forcing all opposition **underground**. It is cutting off communication between blacks and whites. It represents a big step backwards in race relations, and it is bound to make S.Africa's blacks doubt whether the peaceful way is the way that will ever move them towards equality. At any rate, I know that when communication is cut off, the fires burn underground. And I don't care whether you are talking about a marriage, a business association or anything else. Communications have been severed in S.Africa. And that is bearish for the equities of that nation.

I am including this point and figure chart kept up by my friend, Jon Strebler of San Diego. (Each box equals $1 and only changes of $3 or more are shown). What we have here, very simply, is a powerful base formation and three significant trendlines. Trendline A traces the bear market which took gold from its 1974 peak of 195 to its 1976 low of 103. As you can see on the chart, a great "head-and-shoulders" bottom has been traced out, a bottom strong enough to take gold to an ultimate price of 200 (or beyond). I have marked the plunging left shoulder No. 1, the head at a price of 103 is No. 2, and the recent right shoulder is No. 3. I drew the up-slanting trendline B as the potential breakout point.

At a price of 155 gold broke out of the formation. The move has carried to above 163. Normally, I would expect a correction back to the breakout point (around 156) but, of course, the prevailing world situation dictates whether we will have the normal "pull-back" or not. I also drew trendline C, and this rising bullish trendline should contain gold on any sudden and unexpected drop below 150. Right now, trendline C comes in at approximately 141.

My feeling is that a powerful base in gold has now been **completed**. There's no question about it. I don't care if you like gold or not, it's showing powerful technical strength. I again urge all subscribers to carry at least a 5% position in gold coins and preferably a 10% position. And in view of the completed gold pattern, I am probably going to recommend a 15% position in gold on any correction back to the 141 or 151 level. What more can I say? The chart says it all.



Question: How should I hold my gold, in coins or bullion?

Answer: That's your choice. If you buy coins, buy the lowest premium coins over gold content (right now Krugerrands have a high premium so I would not buy them). Many people like to take actual possession of gold (holding it in their bank vault), and here I recommend coins over bullion. The reason is that if you take bullion, then want to sell it later, you may have to have it assayed as to gold content (which is a bother and an expense).

As to gold bullion, many stock exchange firms will buy bullion for you and hold it for you at a bank of your choosing or of their choosing. The in-and-out cost (commission and carrying charge) should not run more than 4-5%. This is a very convenient way of buying gold, and I see nothing wrong with it.

The question comes up, "What happens if the bank that is holding my gold goes under?" The answer is that the gold must be held in a separate "custodian account." If the bank fails, you can send them a "Get Well Card," but your gold is safe. Your gold is totally separate from the bank's assets.

Question: What do you think is fundamentally behind this gold move?

Answer: The same thing that is behind the stock market's slide, and that's illiquidity. Secondly, I think it's the fear of the dollar. So far, I would guess that the fear of the dollar is concentrated in the *foreign* sector. Foreigners tend to hold the big stocks, the Dow-type stocks and the big growth stocks, and those are the ones that have been taking a bath–so far. Foreigners also own Government bonds, rather than Muni's, and so far it's the Governments that have been sliding, rather than Muni's (or corporates). But this smash in the dollar cannot go on. The US has to protect the dollar, one way or the other. We can do it with high interest rates, lower imports, or both. But it has to be done. Obviously, investors in France and Switzerland and Germany and Japan aren't too sure the dollar will be protected, and they're protecting themselves–by selling dollar denominated securities.

GETTING YOUR FEET WET: One of the hardest things to get across to subscribers is the concept of **moving** or what I term "getting your feet wet." When I see circumstances that I feel portend a possible change in trend, I always tell subscribers what I think is occurring. And in most cases, I say, "Let's start moving, let's do something about it **now.**" This concept of **making a first move** is crucial for investment success, both during good markets and bad markets.

For instance, in December, 1974 I said "It looks like it could be a bull market, I can't tell quite yet, but let's start buying." Those who moved (i.e., bought stocks) in December were ready to really move even further in January when a bull signal actually arrived. Then in March of this year I said the opposite. I said that I didn't like the way things were going and that it was time to start selling. By April I was sure I didn't like the way the picture was shaping up, and I said in no uncertain terms, "let's get out." Those who had moved in March were ready to move all the way in April.

By April-May, my subscribers were totally in bonds, notes, bond funds, bills, gold. Then in the last Letter I said, "Let's start moving to the safest money instruments, the **short-term sector.**" I repeat that suggestion now. For months now I have suggested some position in gold. In this issue I emphasize the need for gold protection.

When I say "sell" and a subscriber sits with all his stocks and the market goes down and down, it becomes progressively harder for that subscriber to sell. His pride is involved, and he writes and says, "I ignored your advice, so what do I do now?" And I honestly don't know what to tell this stubborn, prideful fellow.

But the man who moves, the man who gets his feet wet, finds that HE IMMEDIATELY IS ON THE RIGHT TRACK. And this man will move faster if events prove that his first action was correct. That is why it is so important to make that INITIAL MOVE. Paralysis and pride are the two "disastrous P's" of the investment world. If you have either of them, get rid of them!

LATE THOUGHTS: This is a very difficult, fast-moving market, and a day or so may be the difference between a point breaking or a point holding. So it's frustrating not being able to communicate with all my subscribers instantly–but I can't. What I try to do is discuss future possibilities, and examine the meaning of what may or may not take place.

On October 24 the D-J Transportation Average decisively smashed the 203.85 level. Thus, the two secondary lows which were recorded late last year have now been violated, and **both** Averages have confirmed on the downside. At the same time Utilities have weakened impressively, and the bond market is "on the edge." And I have to draw some conclusions regarding events that have elapsed so far.

My inclination is to call it "a bear market." The single item which has not satisfied me is that (as of this writing) the Dow has not closed decisively below 796.19. We have approached to within a fraction of the 796.19 Dow level, but so far–that level has held on a closing basis (by the time you read this, however, 796.19 might be taken out with a vengeance, I just don't know).

I ask myself, "What difference does it make whether you tell your subscribers this is a primary bear market or just a vicious and extended secondary reaction. After all, I console myself, I got my subscribers out of the market when the getting out was good, and why belabor the point about bear markets or reactions. Well, the fact is that it makes a tremendous difference whether the primary trend is up or down, it makes a difference to the nation, the world and it will ultimately make a big difference to us. The difference is this: a primary bear market is an ongoing nightmare, while a severe reaction is a temporary but costly jolt. A bear market has far-reaching and fundamental implications; a reaction has temporary and rather surface implications. It's the difference between cancer and a bad cold.

At any rate, subscribers' positions now should be basically in money instruments with an accent on the short-term instruments such as T-bills or liquid assets funds. Then I want all subscribers to have that 5% to 10% in gold.

* *

NEXT, I want to discuss some strategies, and thoughts which represent what I term "the latest thing on my mind." I would like subscribers to digest these items carefully. I am beginning to note a real *consensus* among analysts and economists at this time. The consensus runs like this: (1) We're in a bear market in stocks. If 796.19 on the Dow goes, "everyone" will concede that the bull is dead. (2) The market is telling us that business will be dull to poor in 1978. (3) Carter, Washington, Congress, the oil deficits, the budget deficits, just about everything is "out of control." Thus disaster lurks around the corner. (4) The upside potential for the stock market is now very limited because we're in a bear market.

Each of these items may or may not be true, but I believe the TIMING is what is going to throw people off. For instance, if we establish an important market bottom ahead, we could get a turn up which would develop into a bigger advance than anyone now thinks possible. I base this on the possibility that the advance (even if it is a bear market advance as per 1930) could ***represent a flight from the dollar***. Remember, in terms of values, stocks are still the cheapest thing around.

Such a stock market advance could result in a correction in gold (which would actually be a pause in the current gold bull market). A big stock advance could drop gold back to say the 150 level, give or take 5%.

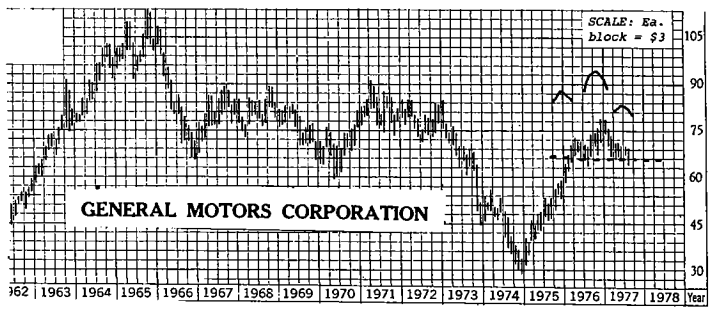
If business continues to be only fair (but not good), it is probable that the Fed will continue to expand the money supply. This would tend to inflame the stock market (once the turn to the upside comes), and it would also tend to give us what I think

will be our last round of inflation. As I see it, the inflation potential is fast being used up, due to foreign fears about the dollar and foreigners' reluctance to hold dollars.

* *

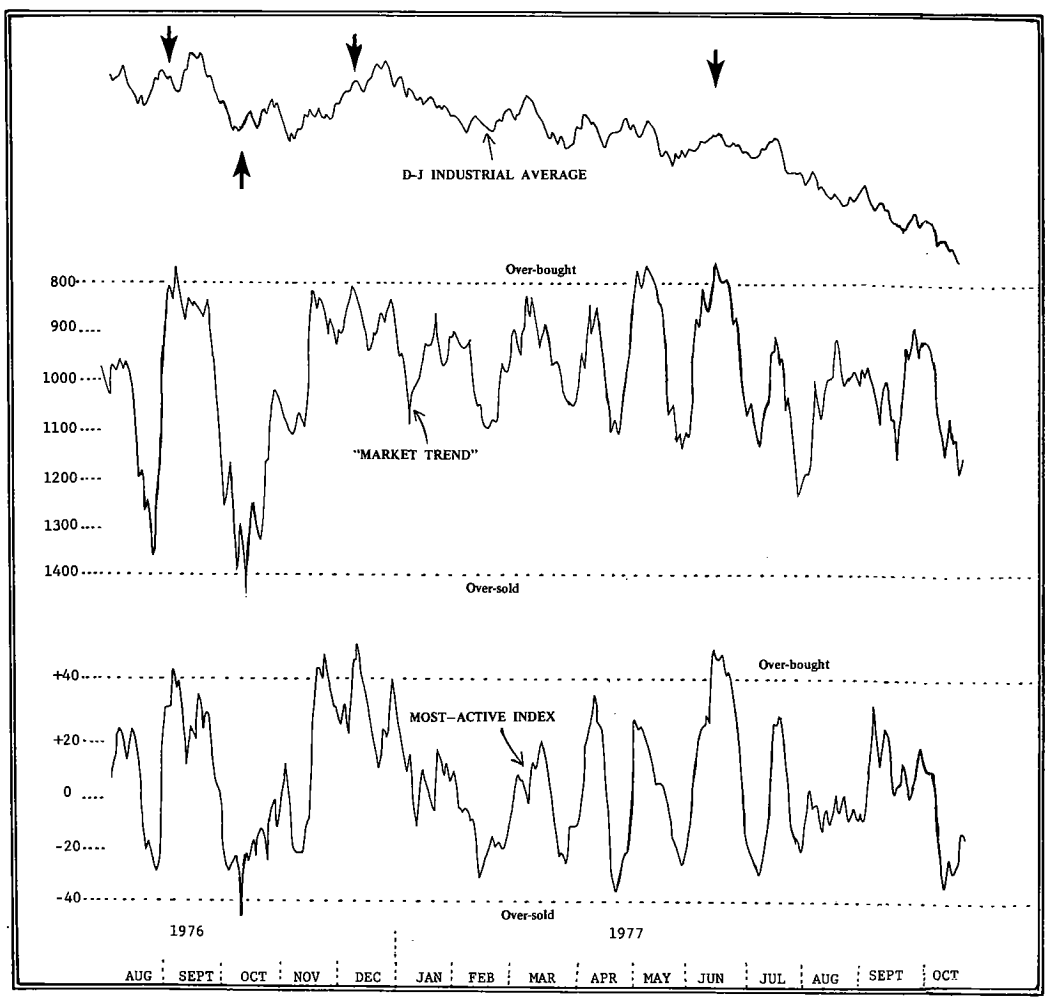
I want to add a few items at the end of this Letter, and I need more space, so here goes an extra page. I'm including my chart of two of the indicators I use to signal over-bought or over-sold areas in the stock market. Incredibly, absolutely incredibly, the indicators have not yet gone over-sold (and this despite a 214 point drop in the Dow). Frankly, I expect these two indicators to hit the over-sold area prior to, or simultaneous with, the coming bottom. As you know, the market trend index should go to minus 1400 for an over-sold and the most-active stocks indicator should sink to minus 40 or more. The chart tells the story; there's still too much bullishness around, and the two indices have therefore resisted going over-sold. So that suggests still lower prices.

In Letter 709 I showed a monthly chart of bellwether General Motors, and I noted that GM was in a very bearish "head-and-shoulders" top. GM has been holding in the 69-70 area, and I have been watching it with interest–wondering how long this most important stock could continue to "hang in there." On October 26 GM started the slide, and I think we could see a good drop here. A sliding GM could be the ticket that will finally turn investors bearish on this market. I don't think there's anything scarier than GM heading to sharply lower levels.



NEW ORLEANS: I'm really sorry that I'm not attending the big New Orleans conference sponsored by my friend, Jim Blanchard, and the *National Committee for Monetary Reform.* But I've been so busy here that I just didn't have the time to get away. At any rate, if you want to be down there among the monetary experts and the gold analysts and the New Orleans shrimp and that delicious turtle soup, then call (504)865-9919. There'll be a raft of good speakers, good company, and one more thing–if you go be sure to have at least one breakfast at Brennan's (it's worth the cost of the whole trip). Date is November 10-13.

I like Tony Henfrey's "Gold Letter" out of S. Africa; I think it is perhaps the best technical gold letter I have seen ($195 per yr., 26 issues, PO Box 1078, Pinetown 3600, S.Africa).



The recent outburst from the White House to the effect that the Fed was pushing interest rates too high would seem to be the "kiss of death" for Arthur Burns. I don't know anything that would so discourage Europeans regarding the dollar as Burn's exit from the Fed.

A rumor has gotten around that I sent a Special Letter out around October 24-25. I don't know how this rumor started, but I have had calls from as far as Canada and Alaska on this. I seldom, very seldom send out Specials. My belief is that if a day or two or three makes that much difference, you're doing something wrong in the market. My problem isn't getting people to move on a day's notice, it's getting them to ever move at all!

NEXT MAILING: November 9th